

DOCKET NO. CV-02-814173-S

SUSAN F. COGSWELL, INSURANCE  
COMMISSIONER OF THE STATE OF  
CONNECTICUT

v.

THE CONNECTICUT SURETY  
COMPANY

: SUPERIOR COURT  
:  
: JUDICIAL DISTRICT OF  
: HARTFORD  
:  
:  
: AT HARTFORD  
:  
:  
: MAY 17, 2002

**ORDER OF LIQUIDATION**

Upon the Petition of Susan F. Cogswell, Insurance Commissioner of the State of Connecticut (the "Commissioner"), and pursuant to The Insurers Rehabilitation and Liquidation Act, Conn. Gen. Stat. §§ 38a-903 to 38a-961 inclusive (the "Act"), and upon the Order of Rehabilitation (the "Rehabilitation Order") entered by this Court in respect of The Connecticut Surety Company ("CSC", and collectively with its successor in interest, the "Respondent") dated February 6, 2002, and the Affidavit of Louis J. Scotti, it is hereby **ORDERED**:

**Commencement/Termination of Proceedings;  
Appointment of Liquidator; Fixing of Rights and Liabilities**

1. Respondent is placed into liquidation under the Act and, as of 11:45 o'clock in the fore noon of this 17th day of May, 2002, the Respondent shall, in its existing form, cease all operations, and "The Connecticut Surety Company in Liquidation" shall continue as successor of the Respondent, consistent with the terms of this and all subsequent Orders of the Court. Rehabilitation proceedings in respect of Respondent shall be deemed terminated as of the foregoing time, provided, however; termination of rehabilitation proceedings hereunder in respect of the

Respondent shall not impair the right of any person to compensation or expense reimbursement pursuant to paragraph 5 of the Rehabilitation Order, or the privilege of the Commissioner to advance the same pursuant to paragraph 7 of the Rehabilitation Order. The title of this case shall hereafter be "In the matter of The Connecticut Surety Company in Liquidation," but the case number shall remain the same.

2. The Commissioner, and her successors in office (collectively, the "Liquidator") are hereby appointed liquidator of the Respondent.

3. Except as otherwise provided herein and in Conn. Gen. Stat. § 38a-939, the rights and liabilities of the Respondent and of its creditors, policyholders, shareholders and all other persons interested in its estate are fixed as of the date of this Order.

**General Powers and Duties of Liquidator; Immunity**

4. The Liquidator is hereby vested, in addition to the powers and authority set forth in this Order, with all powers and authority expressed or implied under the Act.

5. Pursuant to Conn. Gen. Stat. § 38a-920, (a) the Liquidator is hereby vested with the title to all of the property, contracts, and rights of action and all of the books and records of the Respondent, wherever located, and (b) the Liquidator is hereby directed forthwith to take possession of the assets of the Respondent and to administer them under the general supervision of the Court. The filing or recording of this Order with the clerk of the Superior Court and with the recorder of deeds of the town in which the Respondent's principal office or place of business is located, or, in the case of real estate with the recorder of deeds of the town where the property is located, shall impart the same notice as a deed, bill of sale, or other evidence of title duly filed or

recorded with that recorder of deeds would have imparted.

6. The Liquidator shall have all the powers and duties set forth in Conn. Gen. Stat. § 38a-923, including, without limitation, the power to appoint one or more special deputies who shall have all of the powers and responsibilities of the Liquidator under such section, and the power to employ or continue the employment of such employees and agents, legal counsel, actuaries, accountants, appraisers, consultants and such other personnel as she may deem necessary to assist in the liquidation, together with the power to fix the reasonable compensation of such persons (which compensation shall be paid out of the funds or assets of the Respondent). The Liquidator is hereby authorized, in her sole discretion, to pay reasonable severance benefits and stay bonuses to the Respondents' current or former employees. The Liquidator is hereby authorized to pay, from the funds or assets of the Respondent, the reasonable compensation of the foregoing, with all such payments to be reported to the Court in the Liquidator's periodic reports of receipts and disbursements filed pursuant to paragraph 28 of this Order. The Liquidator is hereby authorized to pay the expenses of administration of the liquidation in the ordinary course, and to pay the expenses of the Rehabilitator incurred during the period of rehabilitation but which have not yet been paid.

7. The Liquidator is hereby authorized, in her sole discretion, to maintain the existing bank accounts of Respondents. The Liquidator is also authorized to deposit funds in banks and other institutions in accounts which are insured by the Federal Deposit Insurance Corporation and to invest funds which are not immediately necessary for the administration of the case in the Short Term Investment Fund managed by the Treasurer of the State of Connecticut or obligations of the United States government or agencies and instrumentalities thereof, or in other investments which a

property and casualty company could own under Connecticut law.

8. In the event that the estate of the Respondent does not contain sufficient cash or liquid assets to defray the costs incurred, the Commissioner may advance the costs so incurred out of any appropriation for the maintenance of the Insurance Department. Any amounts so advanced for expenses of administration shall be repaid to the Commissioner for the use of the Insurance Department out of the first available money of the Respondent.

9. The Liquidator is hereby authorized to abandon, without further order of the Court, property of the Respondent which, in her discretion, she deems burdensome or of insubstantial value. The Liquidator is further authorized and empowered to sell, transfer, and convey her right, title, and interest and the right, title, and interest of the Respondent in and to any real property, personal property (tangible and intangible), licenses or any other assets of the Respondent, for such sums of money and on such terms as appears reasonable, at public or private sales.

10. Except as otherwise expressly provided herein, the entry of this Order shall not constitute an anticipatory breach or repudiation of any contracts of the Respondent, which contracts may be affirmed or disavowed by the Liquidator at any time during the pendency of this case pursuant to the Act with the approval of this Court, said approval to be sought by motion to this Court on no less than ten (10) days written notice to the other party or parties to any contract proposed to be affirmed or disavowed, and to any other person or entity who or which has filed or will hereafter file an appearance in these proceedings or in the prior rehabilitation proceedings (the "Notice Parties").

11. The Liquidator may sue, defend and continue to prosecute suits or actions already

pending in the courts and tribunals, agency or arbitration panels in this state and others states, and may settle controversies in respect of debts and claims owing to the Respondent, and claims against the estate in these proceedings, on such terms as appear reasonable to the Liquidator.

12. The actions of the Commissioner, as Rehabilitator of the Respondent, set forth in the Petition are hereby authorized and approved.

13. To the fullest extent provided by law including, but not limited to Conn. Gen. Stat. § 38a-909, the Liquidator, her employees, and other personnel retained by the Liquidator pursuant to this Order and/or the Rehabilitation Order shall have official immunity and shall be immune from suit and liability, both personally and in their official capacity, for any claim or other civil liability in respect of any alleged act, error or omission of the Liquidator, her employees and retained personnel arising out of or by reason of their duties, employment or retention with respect to these liquidation proceedings or the prior rehabilitation proceedings.

### **Injunctions**

14. The following injunctions set forth in Sections 15 through 24 hereof shall apply to entities and persons no matter where they are located, and shall apply to all actions commenced or pending in any jurisdiction, whether in or outside of Connecticut.

15. All officers, managers, directors, trustees, owners, employees or agents of the Respondent, or any other persons with authority over or in charge of any segment of the Respondent's affairs, shall, in accordance with Conn. Gen. Stat. § 38a-908, cooperate with the Liquidator.

16. All principals, obligees and claimants under bonds ("Bond Parties"), and all

officers, managers, directors, trustees, owners, employees, agents, creditors, and policyholders of the Respondent, and all other persons or entities of any nature are hereby stayed, enjoined and restrained, pursuant to Conn. Gen. Stat. § 38a-907, from:

- (a) the transaction of further business;
- (b) the transfer of property;
- (c) interference with the Liquidator;
- (d) waste of the Respondent's assets;
- (e) dissipation and transfer of bank accounts;
- (f) the institution or further prosecution of any actions or proceedings in which the Respondent is a party;
- (g) the obtaining of preferences, judgments, attachments, garnishments, or liens against the Respondent, its assets or its policyholders;
- (h) the levying of execution against Respondent, its assets, or its policyholders;
- (i) the making of any sale or deed for nonpayment of taxes or assessments that would lessen the value of the assets of the Respondent;
- (j) the withholding from the receiver of books, accounts, documents, or other records relating to the business of the Respondent; or
- (k) any other threatened or contemplated action that might lessen the value of the Respondent's assets or prejudice the rights of the policyholders, creditors, or shareholders, or the administration of this receivership proceeding.

17. All persons who have in their possession, custody or control, assets of the

Respondent of any kind whatsoever and wherever situated, including but not limited to, monies, books, records (including but not limited to data processing information, source documents, data processing cards, input tapes, all types of storage information, master tapes or any other recorded information relating to the Respondent), and personal or real property, are directed forthwith to deliver upon demand such assets or books, records and information to the Liquidator.

18. All affiliated companies and any company that shall have acquired any assets or business of the Respondent at any time shall make their books, data processing information, and records (collectively, the "documents") available for inspection and copying by the Liquidator, and shall relinquish possession of the originals of any of the Respondent's records that may be in their possession to the Liquidator. Any documents sought by the Liquidator, which are claimed in good faith by the party in possession of such documents to be privileged or outside the scope of the preceding sentence, shall immediately be presented to the Court by such party for a determination of the Liquidator's entitlement to access to such documents.

19. The Respondent, its officers, directors, trustees, employees, agents, shareholders, owners and attorneys shall deliver to the Liquidator keys or access codes to the premises where the Respondent conducts its business and to any safe deposit boxes, and shall advise the Liquidator of the combinations or access codes of any safes or safe keeping devices of the Respondent.

20. The Respondent, its officers, directors, trustees, employees, agents and attorneys shall identify for the Liquidator all of the assets, books, records, files, credit cards, or other property of the Respondent, shall tender or make readily available to the Liquidator, in the Liquidator's discretion, all of the foregoing, and shall otherwise advise and cooperate with the Liquidator in

identifying and locating any of the Respondent's assets.

21. Any bank, savings and loan association, other financial institution, including any other entity or person, which has on deposit or in its possession, custody or control any funds, accounts and any other assets of the Respondent shall immediately transfer title, custody and control of all such funds, accounts or assets to the Liquidator and is instructed that the Liquidator has absolute control over such funds, accounts and other assets, and that the Liquidator may change the name of such accounts and other assets, withdraw them from such bank, savings and loan association or other financial institution, or take any lesser action necessary for the proper conduct of the liquidation.

22. No bank, savings and loan association, reinsurer, other financial institution, or any other person or entity shall exercise any form of set-off, alleged set-off, lien, or any form of self-help whatsoever or refuse to transfer any funds or assets to the Liquidator's control without the permission of this Court.

23. All agents, brokers, producers, premium finance companies and any other persons having sold bonds of the Respondent are enjoined from returning any unearned premiums or any money in their possession collected for premiums to policyholders or bond principals of the Respondent. All agents, brokers, producers, premium finance companies, or any other person (other than the insured) responsible for the payment of a premium, shall pay to the Liquidator any unpaid collected premium including any amount representing commissions held by such person at the time of the Liquidation Order. Insureds are responsible only for the payment of any earned but unpaid premium for any policy that is due CSC for coverage through the termination thereof either



before or after the entry of the Liquidation Order.

24. All persons, including policyholders and Bond Parties, are enjoined from instituting or pursuing any action or proceeding in any court or before any administrative agency of the State of Connecticut or of any other state or of the United States or any foreign country, which seeks in any way, directly or indirectly, to contest or interfere with the Liquidator's exclusive right, title, and interest to funds recoverable under treaties and agreements of reinsurance heretofore entered into by the Respondent as the ceding insurer, or otherwise ("Reinsurance Treaties"). Any person seeking to challenge the Liquidator's exclusive right, title and interest to funds recoverable under Reinsurance Treaties shall do so in a proceeding before this Court, which shall have exclusive jurisdiction thereof.

**Notices and Reports; Termination of Coverage**

25. The Liquidator shall give or cause to be given notice of this Order in the form attached to the Petition as soon as possible:

(a) by first class mail and electronic communication to the insurance commissioner in each jurisdiction in which the Respondent is doing business;

(b) by first-class mail to any guaranty association or foreign guaranty association which is or may become obligated as a result of this liquidation;

(c) by first-class mail to all insurance agents, brokers and producers of the Respondent of record, with recent appointments and recent licenses to represent the Respondent, at their last known address;

(d) by first-class mail to all persons known or reasonably expected to have claims

against the Respondent including all policyholders, Bond Parties and reinsurers at their last known addresses indicated by the records of the Respondent;

(e) by publication in the Hartford Courant and in other newspapers, if any, as the Liquidator deems appropriate.

26. All policies and contracts of insurance and bonds, whether issued within this state or elsewhere, in effect on the date of this Order shall continue in force only with respect to risks in effect at that time, for the lesser of the following: (a) thirty days from the date of this Order; (b) until the normal expiration of the policy or contract providing insurance coverage; (c) until the insured has replaced the insurance coverage with equivalent insurance with another matter or otherwise terminated the policy or bond; or (d) until the Liquidator has effected a transfer of the policy obligation pursuant to Conn. Gen. Stat. § 923. All policies or contracts of insurance or bonds issued by Respondent are hereby cancelled and terminated for all purposes effective thirty days from the date of this Order if not sooner terminated pursuant to the preceding sentence.

27. The form of notice attached to the Petition and the procedures set forth therein for the filing of proofs of claim are hereby approved. Proofs of claim shall be filed with the Liquidator in the form required by Conn. Gen. Stat. § 38a-938 at the address and in the manner specified in the Notice. Any and all claims against the Respondent not presented to the Liquidator on or before November 15, 2002, shall be forever barred from sharing in distributions of the assets of the Respondent except as provided in Conn. Gen. Stat. § 38a-937. If notice is given in accordance with this Order, the distribution of assets of the Respondent in these proceedings shall be conclusive with respect to all claimants whether or not they receive notice.

28. The Liquidator shall file the financial reports required by Conn. Gen. Stat. § 38a-920. Such reports shall be filed within one year of the date of this Order, and at least annually thereafter, and shall report the assets and liabilities of the Respondent and all funds received or disbursed by the Liquidator during the current period and such other matters as the Liquidator shall, in her discretion, deem appropriate. The foregoing requirement supersedes the requirement of paragraph 13 of the Rehabilitation Order.

29. The Commissioner was not required to serve notice of the Petition for Liquidation Order and Order Setting Bar Date on the Respondent prior to the hearing thereon. A copy of this Order shall be served upon the Respondent by delivering a copy thereof to the entity designated to the Connecticut Secretary of State for the receipt of service of process by the Respondent.

#### **Finding of Insolvency; Early Access**

30. The Respondent is insolvent within the meaning of Conn. Gen. Stat. §§ 38a-1 and 38a-905(13), and for the purposes of Conn. Gen. Stat. § 38a-919(b).

31. The Liquidator shall be authorized to disburse to any insurance guaranty association that is obligated to pay claims under policies and bonds issued by the Respondent (the "Associations"), from time to time, funds from the marshaled assets of the Respondent which the Liquidator determines in good faith will not be necessary to pay claims with class 1 or class 2 priority under Conn. Gen. Stat. § 38a-944 or which are secured claims or which are claims which have other status which is senior and prior to class 3 claims under Conn. Gen. Stat. § 38a-944. Disbursement of such funds to any Association shall be conditioned on that Association's entering into an agreement in form and substance satisfactory to the Liquidator which shall include the

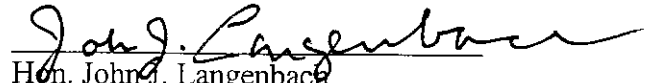
provisions contemplated by Conn. Gen. Stat. § 38a-936(b). The amount of such disbursements shall not exceed the amounts that such Association has paid or expects to pay with respect to claims against the Respondent.

**Continuing Jurisdiction**

32. This Court shall retain jurisdiction over this matter for all purposes necessary to effectuate and enforce this Order. The Liquidator may at any time make further application for any such further relief, including, without limitation, any restraining order, preliminary or permanent injunctions, and other orders as she deems necessary.

Dated this 17th day of May, 2002 in Hartford, Connecticut.

**APPROVED AND SO ORDERED** this 17<sup>th</sup> day of May, 2002.

  
Hon. John J. Langenbach  
Superior Court Judge

JUDICIAL DISTRICT OF  
HARTFORD  
STATE OF CONNECTICUT

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